DOW THEORY LETTERS INC.

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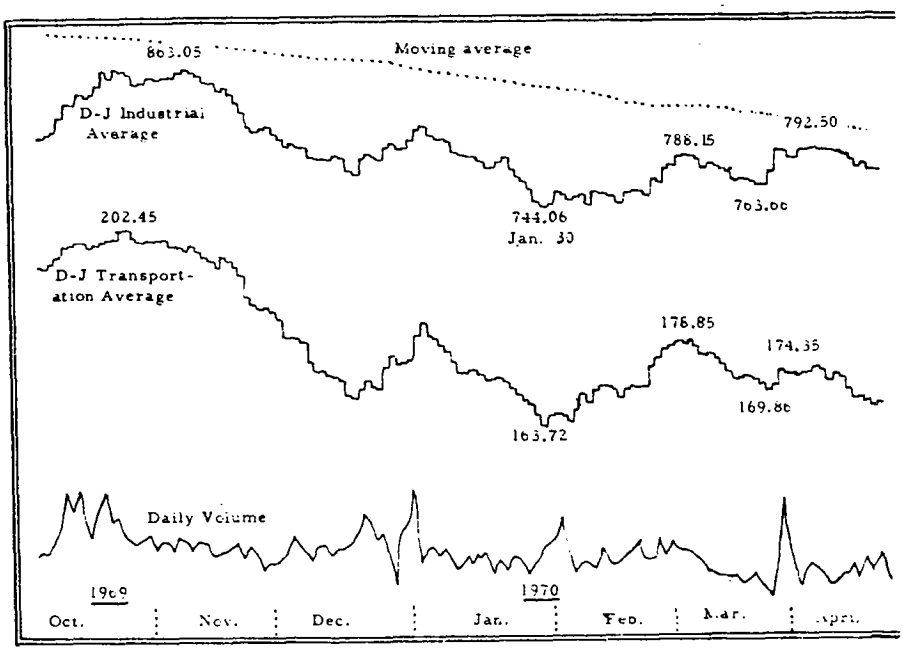
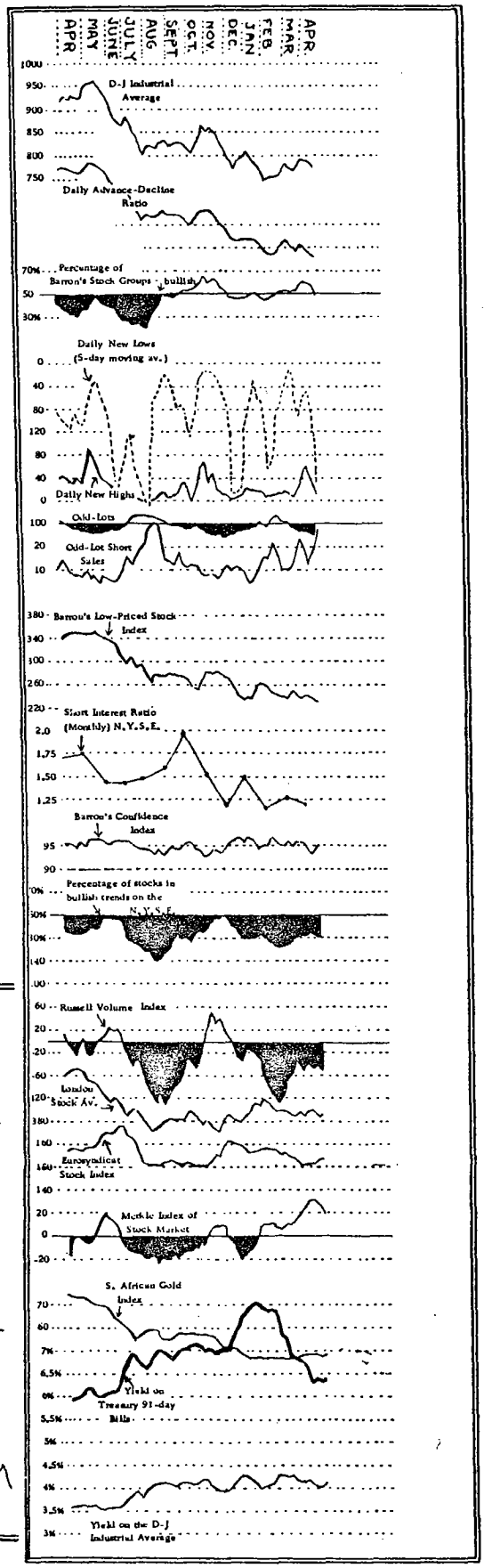
THE MARKET: On April 14 the Wall Street Journal ran a lead-off article on the plight of "The Little Guys," as the story was titled. The sub-title was, "They neither buy nor sell, just hope for a turnaround." The Journal quoted one broker as saying, "It's a weird sort of status symbol right now to go to a cocktail party and tell somebody that your losses in the market are bigger than his."

The aforementioned broker may think it's a "status symbol," but as far as I'm concerned I want my subscribers to have only one brand of status — and that's cash and liquidity. During World War II many of my buddies sported another kind of status symbol called the purple heart. Personally, I never wanted one. I was too busy as a bombardier trying to stay alive, and although a piece of German schrapnel through the leg could not always be avoided, it was a prize I was not looking for.

I have been urging my subscribers to stay out of this bear market, and I am gratified to know that the vast majority of them have listened and acted. Our job is to get out of this "bear market war" alive and with our assets in "one piece." If it's status through losses we need, well my advice is to play the market on paper and tell your friends about the "theoretical beating" you took trying to outguess the primary bear trend. Just don't play this bear market for money. That money is going to look mighty good as the primary bear trend exhausts itself at some low level during perhaps 1971 or 1972.

Some of the losses building up in this market are truly frightful. The AMEX, with its lesser quality stocks, is in shambles with around 40% of the issues there having lost 75% or more of their value. The collapses in speculative shares on both Exchanges appears very similar to "crash" action; it is worse than anything seen in a generation. Group after group has gone through the revolving wringer, with the worst treatment, so far, having been meted out to the lesser quality issues. Yet the frightening part is that there has not yet




APR. MAY JUNE JULY AUG SEPT OCT. NOV. DEC. JAN FEB. MAR. APR.
D-J Industrial Average
Daily Advance-Decline Ratio
Percentage of Barron's Stock Groups bullish
Daily New Lows (5-day moving av.)
Daily New Highs
Odd-Lots
Odd-Lot Short Sales
Barron's Low-Priced Stock Index
Short Interest Ratio (Monthly) N.Y.S.E.
Barron's Confidence Index
Percentage of stocks in bullish trends on the N.Y.S.E.
Russell Volume Index
London Stock Av.
Eurosyndicat Stock Index
Merkle Index of Stock Market
S. African Gold Index
Yield on Treasury 91-day Bills
Yield on the D-J Industrial Average

been any mass selling by the public. For the most part, the average stockholder has been left sitting with his certificates and hoping that "the Government" will bail him out again.

Sooner or later, however, this bear market will produce its mass exit by the public. That will mark the panic phase, the place where everyone and his brother knows that a major bear market has the nation in its grip. And the one cry will be, "I want out!"

One of the ominous factors inherent in the liquidation so far is that it affects 26 million stockholders, the same segment which is the "buying backbone" of the nation. When Joe Smith sees his stock holdings drop in half and continuing to erode, he correctly feels poorer, and he is far less likely to buy that new car or put that extra room on the house. I'm reasonably convinced that the well-heeled consumer is putting the brakes on his buying intentions right now, and if so, the gradually worsening situation will become fully visible by the end of the year.

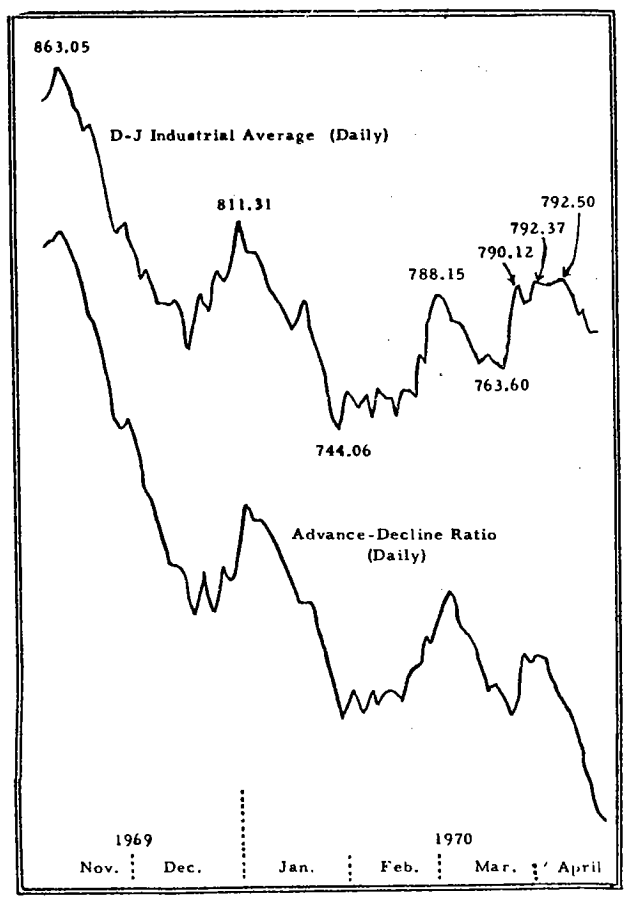
To turn to the market, I talked about the non-confirmation by the Transportation Average in the last Letter (see page 1 chart). On the rally to the 792.50 Industrial recovery high, Transportation failed by four points to better its March 5 peak of 178.85.

The most recent decline took the Transportation Average below its March 23 low of 169.86, and it is now a question of whether Industrials will confirm on the downside. A downside confirmation would entail an Industrial penetration of the March 20 low of 763.66. Until Industrials break that level, or until Transportation can hurdle the March 5 peak of 178.85, the secondary trend of the Averages will be in question.

The picture in the main mass of issues, as reflected by the action of the advance-decline ratio, is far less hazy. In fact, the haze has now developed into a black cloud. In the last two Letters (457 & 458) I drew attention to the important divergence building up between the D-J Industrial Average and the A-D ratio. This Letter brings the A-D ratio (see chart) up to date. Referring to the chart, I list the actual figures below:

Date	DJI closing	A-D Ratio
March 4	788.15	7.34
March 26	791.95 (higher)	6.28 (lower)
April 2	792.37 (higher)	6.25 (lower)
April 9	792.50 (higher)	5.28 (lower)

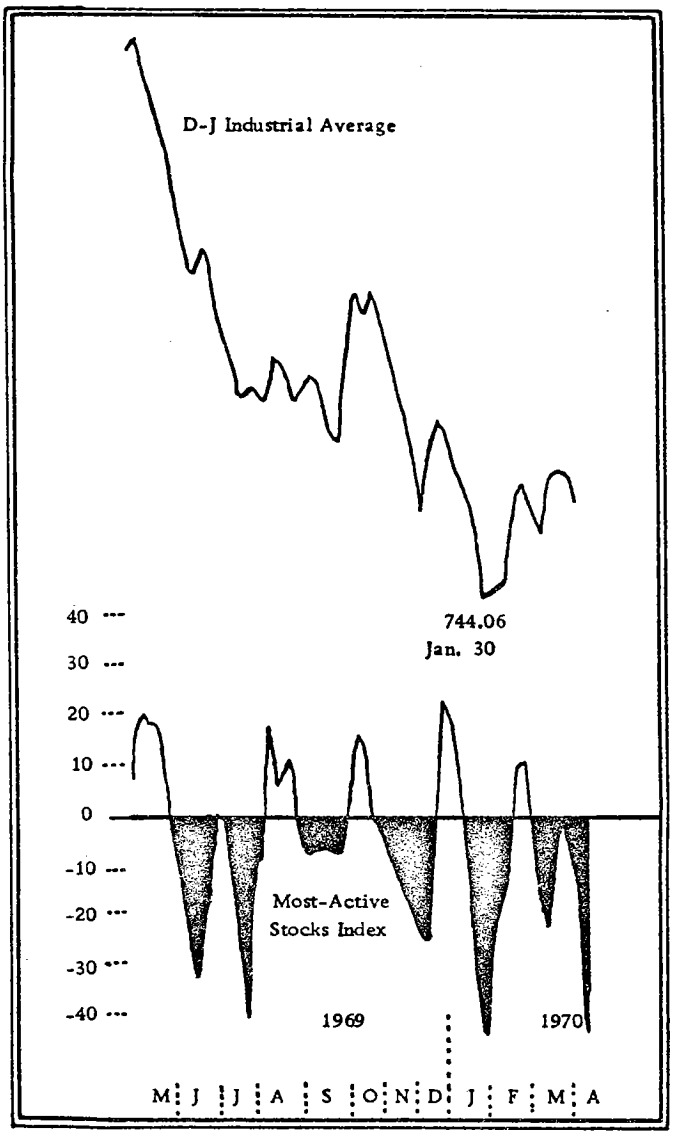
This constitutes a most extraordinary series of divergences between price and breadth. To the best of my memory I can remember other series of three rising peaks in the Dow with three simultaneous lower peaks on the A-D ratio, but I do not recall any other series which include four ascending peaks in the Dow accompanied by four declining peaks in the A-D ratio.



The amazing divergence in the Dow and the rest of the market as shown above proved too much for the A-D ratio. On April 10, one day after the recovery peak of 792.50 on the Dow, the A-D ratio plunged below its January 30, 1970 low, to a new low for the entire bear market.

This sets up an unusual situation in that the Dow Industrials on April 10 were about 45 points above their own comparable January 30 low of 744.06. The question is, will the Dow confirm during the period immediately ahead by dropping under its January 30 low — or will the non-confirmation set off a further rally in the market? At this point it is impossible to say. And the answer, from the long-term standpoint, is not that important. Regardless of whether the Dow sinks to new bear market lows in the next month or the next six months, the die appears to be cast. It is obvious that the main body of the market (as reflected by the A-D ratio) is considerably weaker than the Dow. Even if the Dow manages to rally to a new recovery high (above 792.50) the A-D ratio is now so far out of gear on the downside that a new recovery peak in the Dow would simply compound the technical difficulties.

MOST ACTIVES: In the last Letter I mentioned the 20 most-active stocks indicator, a study which appears frequently in these Letters. The indicator which I use is the plurality of the week's most active stocks tabulated in the form of a three-week moving average. In other words, over a three week period if 25 of the most active stocks rose and 35 declined, the indicator would show a minus 10.



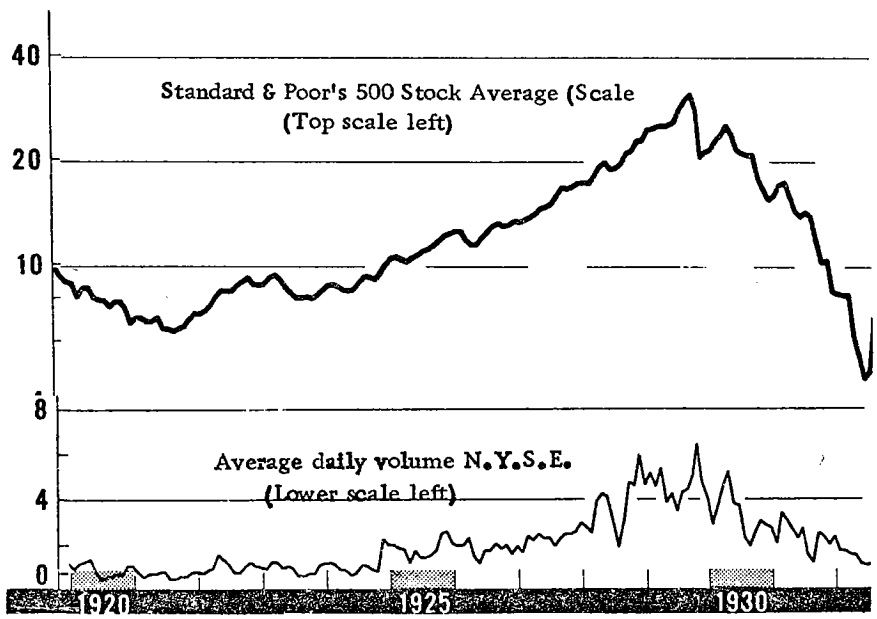
The 20 most-active stocks comprise about 15% of each week's total volume on the N.Y.S.E. The direction of the 20 most-actives is indicative of where a good deal of important money is going. Over any reasonable length of time, the most-active will outpace the rest of the market up or down. Thus, the direction of the majority of most-active stocks offers a "preview" as to the forthcoming direction of the rest of the market.

The accompanying chart traces the most-active indicator from May, 1969 to date. This happens to cover the worst performance of this indicator since the 1929-32 period. During the past 52 weeks, the most-active indicator has been on the plus side for only 14 weeks! Of the 16 weeks of 1970 (most of which includes the market rally which began on February 1), only 5 have seen the most-active indicator on the plus side. The peak for the indicator was reached on the week ending March 6. That week produced a rather unimpressive plus 10 on the indicator, the lowest upside peak seen since 1968. In contrast, the intensity on the downside has been outstanding with four separate plunges below minus 30 pictured on the chart.

Last week (week ending April 17) produced a perfect downside score of minus 20 with all the most-actives on the losing side. This has not occurred since last July, and coupled with the minus 18 of the week before and the minus four of the week before that, it took the indicator (three week moving average) to a resounding minus 42.

The warning of the indicator is clear enough: the majority of activity in the most-active list has, since March 1, been decidedly and increasingly down. Distribution would seem to be the order of the day.

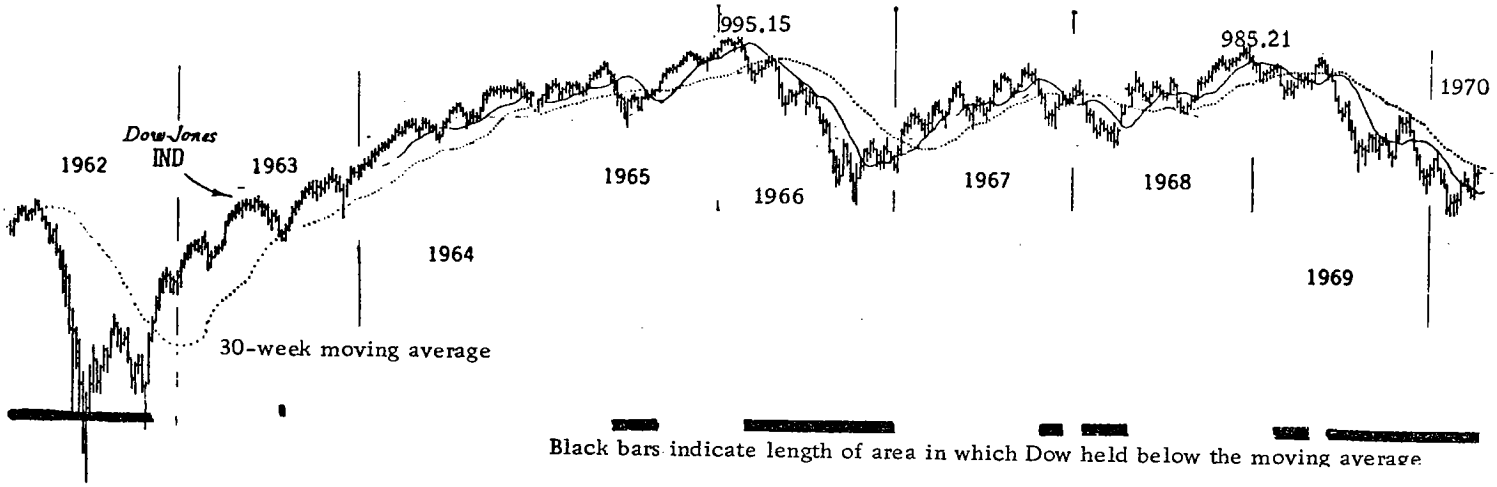
VOLUME: I want to correct one misconception which is currently making the rounds. I hear over and over again that "One big plus in this decline is that volume is drying up as the market works lower."



Just for the record I want to comment that a long-term trend to lower volume is not a hopeful sign during a primary bear market, it is simply a characteristic sign. I have included a little chart showing the action from 1921 to the bull market top of 1929, and the action from the peak in 1929 to the bear market low of July, 1932.

Note the characteristic tendency of volume to expand as the bull market and higher prices attracted more and more customers for Wall Street. Then note the opposite

effect as the bear market of 1929-32 drove the public away from the Street. Anyone who had accepted a diminishing trend of volume during 1929 to 1932 as a bullish indication would have been wrong and most probably broke. It would not surprise me to see average volume on the N.Y.S.E. running at a rate of 2 to 3 million shares per day before this bear market has breathed its last.



MOVING AVERAGE: Two of the most widely followed but least understood indicators are the Dow Jones Industrial Average and the 30-week moving average of the Dow Industrials. For years people have complained that the Dow "does not represent the market." To make a long story short, the Dow was never supposed to represent the Average level of the entire market. In fact, during the past few years Wall Street has developed indices which do fairly accurately represent the level of all stocks, and such a one is the N.Y.S.E. index computed by the Exchange itself.

The Dow Jones Industrial Average represents the average price of thirty of the leading blue-chip corporations in the nation. These companies represent investment-quality and big-money leadership, and no one ever claimed that you can tell which way the "cats and dogs" are going by following the Dow.

The great value of the Dow is that it does represent the investment-grade type of corporations, and the direction of the D-J Industrial Average does indicate which way investment-grade money is going. Ironically, when the Dow is leading the rest of the market everybody loves the dear old venerable Average, but when the Dow is lagging the analysts all mouth the old complaint that "it only represents 30 granny-type stocks."

The 30-week moving average of the Dow is an extremely useful concept. This theorectical line shows the average price which investors have paid for the blue-chip Dow stocks over the past approximately six months. If the Dow is above its own moving average the implication is that investors are bullish enough (at least temporarily) to pay more for the Dow than they have paid (on average) over the past six months. Conversely, when the Dow is under its moving average it means that investors, for some reason, are paying less for the Dow than they have on average during the past six months.

I have included a chart through courtesy of Quote Digest, 403 N. Main, Wichita, Kansas. 67202. The chart shows the weekly high-low for the Dow since 1962 together with the 30-week moving average, which is shown as a dotted line (the solid line is the 10-week moving average, a much more sensitive indicator and one which I will not discuss now).

I spent last weekend studying the relationship of the Dow and its own 30-week moving average. The results were both interesting and informative. Here are some of the results: During 1957-58 the Dow plunged below its moving average (M.A.) and held under M.A. for 35 consecutive weeks before repenetrating the M.A. on the upside. During 1960 the Dow sank below the M.A. twice, once for 19 weeks, later for 21 weeks. At the end of that time the primary bull market resumed.

During the severe 1962 reaction the Dow plunged below the M.A. and held below it for 33 weeks. During 1965 the Dow slipped below the M.A. for 9 weeks.

The bull market topped out in February, 1966 at 995.15 on the Dow. Three months later, in May, 1966, the M.A. topped out at its bull market peak of 939. The Dow dropped below the M.A. in May, 1966 and it held below it for 37 weeks, the longest span of time below the M.A. since the 1929-32 period. The M.A. hit a low of 825 in May of 1967, then turned up again as the Dow (which had recorded its own low in October, 1966) headed higher in a massive counter-primary trend correction.

During late-1967 and early-1968 the Dow dropped below the M.A. for a period of 12 weeks. But by mid-1968 the Dow and the M.A. were moving up again. The Dow Industrials recorded a final rally top during December, 1968 at 985.21. A period of violent fluctuations occurred, and during July 1969, the M.A. touched its recovery peak of 936, just two points below the M.A. peak of May, 1966.

During the week of June 14, 1969, the Dow plummeted under the M.A., and a few weeks later the M.A. itself turned sharply lower. As this is written, the Dow has been below the M.A. for 44 consecutive weeks, a length of time unmatched in modern history. Last week the M.A. sank below 810 or well below its 1967 bear market low of 825.

At this point we might pause and ask, "What is the M.A. saying?" First it is saying that the highest average price for the Dow (based on a 30-week period) was touched during May, 1966 at 939. Second, it is saying that the low average price for the Dow was paid a year later at 825 during May, 1967. Third it is saying that the best average price paid during the whole 1966-69 rally was during July, 1969 at 936, just three points under the 1966 high. Fourth, the M.A. is saying that the Dow has now held under its M.A. for 44 weeks, during which time the M.A. has slipped steadily lower. Finally, the M.A. is saying that at around 808 for the M.A., investors are now willing to pay less for the Dow (on a 30-week average period of time) than they have during any period since the bear market started over four years ago.

I would say that the length of time (44 weeks) which the Dow has held below the M.A. has bearish connotation, that the current direction of the M.A. (down) is bearish, and that the actual level of the M.A. (at a new low) is bearish. In conclusion, I would also say I expect the M.A. to probe lower levels pretty consistently between now and the time the bear market ends. Occasional strong and violent rallies may succeed in penetrating the M.A. on the upside, but over any reasonable length of time (three to six months) the M.A. should be establishing new bear lows with the Dow Industrial Average holding consistently under its moving average.

LETTERS: In Letter 456 I made reference to famous economist Pierre Rinfret, and I stated that Dr. Rinfret "seems to have quietly made some revisions" on his bullish forecast for the 1970 economy. Last week I received a reply from Dr. Rinfret, and I hasten to provide my readers with Dr. Rinfret's real views on the economy:

Dear Mr. Russell:

I have just read your March 20, 1970 letter, # 456, in which you indicate that I have made some revisions in my economic forecasts.

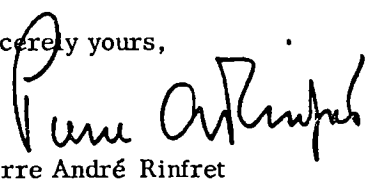
This is totally in error.

From the very beginning, I have said that unemployment would increase to 5 - 5 1/2 % in 1970, based on my economic forecasts.

The projected real growth in the economy is 2.5 %. Productivity is 3 %. Real growth will be handled by productivity. This means that the increased labor force of between 1.5 and 2 million people becomes unemployed. We need 4.5 % real economic growth to take up our increased labor force and to hold unemployment constant.

I would appreciate a retraction on your part, since you have erroneously and incorrectly stated my economic position.

Sincerely yours,



Pierre André Rinfret

From Mr. Karlheinz Issel of San Francisco comes another informative letter:

Dear Mr. Russell:

In your Letter 456 of March 20, you discuss the possibility of the nationalization of ADRs by the U.S. You give two reasons for believing this will not occur, i.e., the moral implications would be horrendous and it would have no effect on the price of gold.

I think this misses the point.

If the U.S. were to nationalize ADRs, even if the ADRs were confiscated from their owners by federal agents, the government would only hold receipts, not stock certificates. The stocks are hold by Morgan Trust in vaults in England. The U.S. could obtain the stock certificates only by demanding them out of England. Since the legal owner of the ADRs must authorize disposal of his shares, the U.S. would, in effect, have to force England to participate in this piracy.

Finally, a subscriber from Ohio sends his eye-opening picture of the brokerage business from his Central U.S. vantage point:

Dear Mr. Russell:

All the broker-dealers in this area, except the small old time firms who refused to expand their operations, are suffering heavy losses. Many firms are losing their capital at rates up to 50% a year. Many of the Big Board houses have taken ground floor offices in new buildings at rates of $10.00 a square foot and up. Cut backs in sales staffs and back office staffs are going on apace. Firms that installed IBM and NCR data processing equipment are only using it for a small period per day and are trying to find other uses for their idle equipment. With high rents,high data processing costs and high salaries the industry faces a very rough period as they have very little control of their costs. Many member firms with capital from $500,000, to $1,000,000 are looking for mergers and so the process of liquidation slowly goes on.

STOCKS: It's hard to say anything too brilliant about individual stocks at this time. My charts show the great majority of issues on both Exchanges in all stages of decline and collapse. It's like studying a textbook of Wall Street chaos. I keep a chart (tabulations from Chartcraft) which I will probably publish in the next report showing the percentage of stocks on the N.Y.S.E. which are bullish on a point & figure interpretation.

The bullish percentage got down as low as 6% at the worst of the 1962 drop. During July and again in October, 1966, the bullish percentage retreated to 8%. During July, 1969 the bullish percentage sank to 10%, which was a bit better than 1962 or 1966. The lowest figure for the bullish percentage this year was 22% during February. Currently, the bullish percentage is at 27%.

Now an optimist can say that this is a hopeful indication since the A-D ratio is at a new low but the bullish percentage is higher than it was at the previous low of January 30. Personally, I feel that this is a rather tenuous interpretation. I would expect, since this market decline seems to be part of a major downward movement, that the bullish percentage could again retreat to the 6% to 10% area before the drop is over. We may have rallies and intermediate (upward) corrections, but I expect a 6% to 10% figure on my bullish percentage charts again, before 1970 breathes its last.

MONITOR: I thought these two clips to the right (both from last week's Christian Science Monitor)contained information interesting enough to present to subscribers. The first piece is about India and gold, the second about the cost of a home mortgage today.

Peasants yearn for gold

Although transistor radios, record players, Swiss watches, French perfume, and other smuggled luxuries are strictly for the small percentage that are the affluent class in India, it is the country's hundreds of millions of poor who hunger for gold.

For thousands of years, Indians have hoarded gold either as jewelry or in bullion, because they do not trust the money of their rulers, which has often ended up worthless. Because of this old suspicion of money, it is estimated that Indian peasants are hoarding billions of dollars in gold. It is usually hidden away in their homes or buried somewhere on their land.

Despite a strict gold-control law that allows only licensed dealers to buy and sell the metal, all it requires in India is to know the right person to buy smuggled gold. Most of the metal comes in one-tola pieces (.35 ounces) in the shape of a biscuit. They are easily smuggled into India and are the most popular size on the market.

'Social security'

Gold biscuits are bought by peasants sometimes at three times the world gold price, but they feel that the metal is well worth it. When a peasant wants a loan from the village money lender for a daughter's wedding he puts up the gold as security for the loan.

In cases of famine or other disasters, the peasant knows that gold can buy food for his family where money cannot. If he is without sons, the gold is his "social security" during his later years.

Villain—and victim

Only two years ago at this time a good, solid borrower with a reasonable down payment could locate a 6 percent mortgage rate.

Now that same loan hopeful is hard pressed to find an 8½ percent rate.

What does that mean in dollars and cents? On a $25,000, 20-year mortgage, it means $216.96 compared to $179.11 — or a startlingly significant difference of $37.85 a month. Add that to all of the other budgetary problems of most families and we end up with a frightening picture indeed.